# Lump sum taxation

Switzerland

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# What's new?

On 1 January 2016, the amendments to the lump sum taxation regime came into force. For persons who were already taxed on an expenditure basis when the reform entered into force, the old legislation applied until 31 December 2020. **This means that since 1 January 2021, all lump sum taxed individuals in Switzerland are now subject to the new rules as outlined here.**

## Lump sum taxation in brief

The lump sum taxation regime enables foreign nationals taking up residence in Switzerland to pay an expense-based tax instead of ordinary income and wealth tax. To apply for the lump sum taxation regime, a person must fulfill the following requirements:

- does not have Swiss citizenship;
- has unlimited tax liability (i.e. domicile) for the first time or after an interruption of at least ten years in Switzerland; and
- do not perform any gainful activity in Switzerland.

## Conditions

- Spouses living in a legally and factually unseparated marriage must both fulfil the above-mentioned requirements.
- The tax base is calculated on the basis of the total worldwide annual cost of living expenses by the taxpayers for themselves and their dependents and is usually subject to negotiations with the tax authorities.
- Ordinary tax rates apply on negotiated base.
- In practice, the minimum annual cash out tax burden depends on the canton of residence and generally starts from CHF 250'000 to CHF 300'000 for non-EU/EFTA nationals. EU/EFTA nationals may benefit from a lower tax base.
- In addition, Swiss Social Security contributions of approx. CHF 25,000 p.a. per person are due.

## Residence permit

Based on a negotiated lump sum tax agreement, the cantonal authorities may issue a residence permit based on fiscal interest if the individual is taking up residence in Switzerland.

## No gainful activity in Switzerland

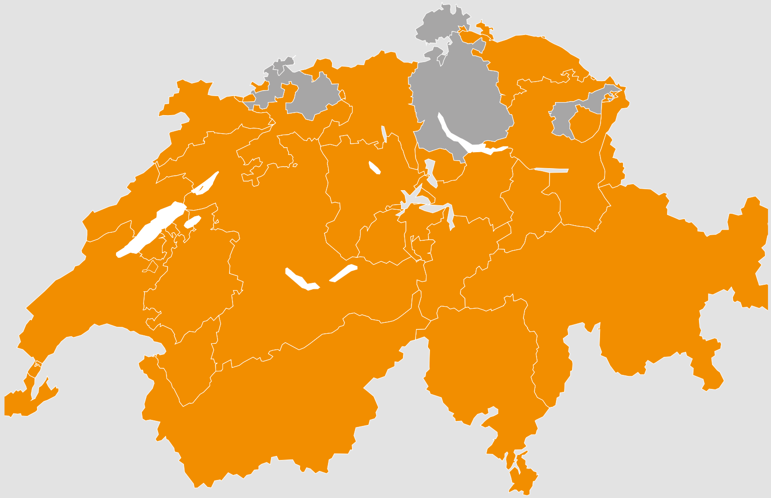
As stated above, lump sum taxation requires the absence of gainful employment in Switzerland (both employment and self-employment). This means that a gainful activity **outside** Switzerland is permissible. Particularly disputed is whether the activity as a member of the board of directors (BoD) for a company domiciled in Switzerland qualifies as a gainful activity, even if it is not remunerated. In this regard it can be generally stated that:

- non-remunerated BoD activity for a third-party company (i.e. in which the individual does not hold a participation) is in general unproblematic;
- non-remunerated BoD activity for a company in which the individual holds a minority participation is in general unproblematic;
- non-remunerated BoD activity for a company in which the individual has a majority participation may be still qualified as a gainful activity.

Remunerated BoD activity carried out outside Switzerland for a non-Swiss company is unproblematic.

## Conclusion

The lump sum taxation regime is a very attractive and internationally favourable tax regime for foreigners not engaged in a gainful activity in Switzerland and can be claimed in all of the cantons with the exception of Zurich, Basel-Stadt, Basel-Land, Schaffhausen and Appenzell Ausserrhoden (see map).



## Key highlights

- The lump sum taxation regime is a very attractive and internationally favourable tax regime for foreigners not engaged in gainful activity in Switzerland.
- Access to a wide range of double tax treaties that Switzerland has concluded.
- Relatively low cash out tax burden.

## Switzerland

- Political stability and continuity with cooperative and reliable government and tax authorities.
- Highly favourable tax legislation for individuals.
- Excellent infrastructure and location in the heart of Europe.

## Residence permit

- Individuals subject to the lump sum taxation regime are entitled to apply for the B residency permit.

## Conditions of stay

Lump sum tax residents are not allowed to engage in gainful activity in Switzerland and need to pay the agreed taxes.

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